DIRECT TESTIMONY

OF

HECTOR ALATORRE

ON BEHALF

OF

TRANSCONTINENTAL GAS PIPE LINE COMPANY, LLC

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Hector Alatorre. I am Director of Customer Services for Transcontinental Gas Pipe Line Company, LLC (“Transco”). My business address is 2800 Post Oak Boulevard, Houston, Texas 77056.

Q. PLEASE STATE YOUR EDUCATIONAL ACHIEVEMENTS AND PROFESSIONAL DESIGNATIONS?

A. I graduated in 1990 from The University of Texas at San Antonio with a Bachelor of Business Administration in Accounting and in 1992 became a Certified Public Accountant licensed in Texas.

Q. **PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.**

A. In 1990, I joined the Federal Energy Regulatory Commission ("FERC") as an Auditor. In November 1992, I joined Transco in the Internal Audit department. I have held management positions in the Customer Services and Joint Ventures departments. On January 1, 2017, I was named to my present position.

Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

A. No.

Q. **ON WHOSE BEHALF ARE YOU PROVIDING THIS TESTIMONY?**

A. Transcontinental Gas Pipe Line Company, LLC, ("Transco").

Q. **ARE YOU FAMILIAR WITH TRANSCO'S INTERVENTION IN THIS DOCKET? IF SO, PLEASE DESCRIBE THE REASONS THAT TRANSCO INTERVENED IN THIS DOCKET.**

A. Yes. Transco is a provider of natural gas transportation and storage services to South Carolina Electric & Gas Company ("SCE&G"), a wholly-owned subsidiary of SCANA Corporation ("SCANA), and to Dominion Energy, Incorporated ("Dominion"). Transco has substantial business interests with SCE&G and Dominion which will be substantially affected by decisions by the Commission in this proceeding and any changes to any of the contracts between Transco and Dominion and/or Transco and SCE&G.

Q. DO YOU HAVE FIRST HAND KNOWLEDGE OF TRANSCO'S OPERATIONS AND FACILITIES IN THE SOUTHEAST? IF SO, PLEASE DESCRIBE.

A. Yes. In my capacity as Director – Customer Services, I am responsible for working with Transco's customers – local distribution companies ("LDCs"), power generators, producers, marketers, etc. – to meet their gas transportation and storage requirements, in accordance with Transco's FERC Gas Tariff ("Tariff") and policies and procedures. This includes providing ongoing support related to existing firm and interruptible services and capacity release, as well as developing new services and negotiating interconnect and Operational Balancing Agreements. In my position, I am familiar with Transco's Tariff and transportation and storage arrangements.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present Transco's concerns about the impact of the proposed merger on the customers of SCE&G and to propose necessary safeguards to ensure that if the Dominion and SCANA merger is approved the combined entity will use the most reliable, low-cost gas transportation services available to it and that South Carolina ratepayers will continue to receive the best service at the lowest cost.

Q. PLEASE SUMMARIZE TRANSCO'S POSITION IN THIS PROCEEDING.

A. Transco believes it is important to evaluate the proposed merger in the context of Dominion's overall business strategy. In addition to acquiring the distribution and transmission systems of SCANA and SCE&G, Dominion's CEO Tom Farrell has stated that "[t]his combination can open new expansion opportunities including the Atlantic Coast Pipeline that is now under development bringing lower cost natural gas to the region." The further extension of the proposed Atlantic Coast Pipeline ("ACP") into Transco's southeast market area is made more certain by ACP's proximity to Carolina Gas Transmission, a 1,500 mile interstate pipeline that currently serves South Carolina and southeastern Georgia that Dominion purchased in 2015. As Dan Weekly, Dominion's vice president, stated in 2017 when discussing ACP, "everybody knows it's not going to end in Lumberton."

Dominion's proposed business strategy, including the merger proposed in this docket, would create a vertically integrated business structure that would have significant control over essential facilities in the sale, distribution and transmission of natural gas and electricity in South Carolina. In effect, Dominion would control virtually every link in the energy delivery chain – including the acquisition of natural gas at the wellhead, the transportation of gas to electric power generation facilities, the siting and operation of generation facilities, and the sale of electric power and natural gas to end users.

This vertically integrated business structure could lead to decisions by the merged company that could result in South Carolina consumers paying higher prices. Of particular concern should be the ability of SCE&G and SCANA to make appropriate decisions when selecting among affiliated and unaffiliated suppliers and whether the new structure will make it difficult for the combined entity to engage in "arm's length" negotiations with its affiliates. Unless adequate controls, including audits by the South Carolina Office of Regulatory Staff and appropriate merger conditions are imposed, the proposed acquisition will leave SCE&G and SCANA in a position of selecting among affiliate and third party suppliers of natural gas and competing intrastate and interstate transmission capacity – whose facilities compete with the combined entity.

For these reasons, the proposed merger must be closely scrutinized by the Commission to ensure that the interests of the South Carolina ratepayers to receive service at the most competitive price is protected. Transco believes that if the merger is approved, certain safeguards and conditions must be instituted to ensure that South Carolina consumers are able to obtain the most cost effective and reliable service.

Q. WHY IS TRANSCO INTERESTED IN ASSURING THAT THE DOMINION/SCANA ACQUISITION IS ADEQUATELY REGULATED?

A. Transco has been investing for more than sixty years in facilities to provide low cost, reliable natural gas service to South Carolina's LDCs, end users and consumers. Transco provides firm and interruptible transportation, storage and LNG peaking services for South Carolina's LDCs, end users and other shippers, including SCE&G, SCANA Energy Marketing, Inc. ("SEMI"), and consumers located on SCE&G's system. Transco currently has firm commitments to provide transportation service of an average of 231,944 dekatherms per day (“dt/d”) to 19 South Carolina customers and to provide storage capacity of 300,957 dt/d with withdrawal capacity of 11,259 dt/d to seven South Carolina customers. Transco delivered approximately 32.5 billion cubic feet of natural gas to South Carolina in 2017.

Transco has approximately 385 total miles of pipeline in South Carolina, consisting of three and four mainlines in parallel which range from 24-inch to 42-inch in diameter. Transco has two compressor stations and a total of 38 delivery points to customers in the state. Additionally, Transco employs 22 operating personnel in South Carolina to operate and maintain its facilities.

Transco has consistently invested to assure that its facilities adequately meet the growing market demand for natural gas in South Carolina by developing projects and constructing facilities to enable South Carolina shippers to access additional gas supply sources on a firm basis to meet existing and future customer needs and to increase the security of those gas supplies. In 2016, Transco’s Leidy Southeast Project added an additional 40,000 dt/d of incremental capacity to serve the gas requirements of South Carolina consumers.

Transco is also planning to continue expansion of its facilities serving South Carolina. For example, on April 11, 2018, Transco filed with the FERC for a certificate of public convenience and necessity to construct and operate its Southeastern Trail Project to enable Transco to provide an additional 296,375 dt/d of incremental capacity, 215,000 dt/d of which is intended to serve South Carolina, by a target date of November 1, 2020.

Q. PLEASE ELABORATE ON HOW THE PROPOSED MERGER COULD ADVERSELY IMPACT SCE&G'S AND SCANA'S RATEPAYERS.

A. The vertically integrated business structure which would result from the proposed merger creates the risk that the interests of South Carolina ratepayers in receiving the best service at the lowest cost could be in direct conflict with the interests of the merged company in supporting its affiliated businesses without sufficient regulatory controls. The merged company, through its affiliates, could exert significant control over electricity and natural gas supplied to South Carolina as well as on the siting of power plants, distribution systems, and intrastate and interstate transmission facilities.

For example, Dominion owns 45% of ACP, a proposed 600 mile pipeline from West Virginia to Lumberton, North Carolina. The owners of ACP have expressed the possibility for future expansion opportunities to other markets in South Carolina. Without proper regulatory oversight and controls, Dominion could exercise control over SCE&G to cause them to participate in future expansions of ACP, at a greater cost than similar service on Transco.

If the business structure of the merged company causes SCE&G to make a decision to purchase transportation or gas service from an affiliate notwithstanding the fact that there is a cheaper and better service alternative available from an unaffiliated supplier, the proposed merger will adversely impact South Carolina ratepayers. Further, Dominion could exercise control over SCE&G to cause it to terminate its existing service agreements with Transco, many of which are beyond the primary term set forth in the contracts and may be terminated upon delivery of the required notice from SCE&G to Transco. This could displace SCE&G's existing, cost-effective firm transportation service through Transco's legacy pipeline facilities with expensive new infrastructure. Exhibit "HA 1", attached to my testimony, contains a table reflecting the commencement and expiration dates of SCE&G's contracts with Transco.

Q. PLEASE ELABORATE ON YOUR STATEMENT THAT TRANSCO PROVIDES A CHEAPER SERVICE THAN ACP.

A. Based on information contained in ACP's public announcements, the capital cost of constructing ACP involves an investment of $5.07 billion to create 1,500 MDt/d firm capacity. The applicable ACP recourse rate is significantly higher than Transco's rolled-in system rate. The applicable ACP rate is $1.729 dt/d as compared to Transco's currently applicable maximum system rate for transportation from Zone 1 to Zone 5, which covers from Texas to Virginia, of $0.43557 dt/d, including electric power charges.

Q. CAN YOU DESCRIBE THE RELIABILITY AND FLEXIBILITY OF TRANSCO'S SYSTEM?

A. Yes. Transco has provided and continues to provide an extremely reliable source of interstate natural gas pipeline capacity for its customers in South Carolina. This reliability is due to the system-wide flexibility of Transco's system afforded by the total integration of Transco's system, its multiple parallel pipelines, its many compressor units and stations, its storage capacity, substantial line pack capability, and prudent operating and maintenance practices.

In addition to the physical reliability, Transco's system affords its customers the ability to source gas supplies from various gas supply basins attached directly to Transco's vast pipeline network and attached indirectly via Transco's numerous interconnections with third-party pipelines. This supply source diversity serves to reduce the magnitude of the effect of a supply disruption (whether from hurricanes, storms, unplanned outages, etc.).

Q. DOES TRANSCO'S SYSTEM PROVIDE ACCESS TO DIVERSE GAS SUPPLIES?

A. Yes. Shippers on Transco's system are not limited to gas supplied by producers physically connected to Transco's system. Transco is part of an extensive and integrated pipeline grid and through numerous interconnections with other pipeline systems, shippers on Transco's system have access to gas supplies from many different supply basins. For example, shippers can rely on these existing pipeline interconnections to receive gas supplies from other pipeline systems for transportation via the Transco system to South Carolina markets. As a result, shippers on Transco's system have access to diverse gas supplies connected to the interstate grid and supplied by producers as well as marketing companies.

It is well recognized that ample, uncommitted gas supplies are available through North America and that a competitive wellhead market for such supplies exists. Given this competitive natural gas market, the transportation component of the rate has a tremendous impact on the price of delivered gas. Since after the merger the combined entity would be a supplier of both natural gas and electricity and would be able to pass through its upstream gas supply and transmission costs in its utility rates, SCE&G may be indifferent to increases in the price of delivered gas. Consumers of natural gas and electricity, on the other hand, would not be indifferent to increases in the price of delivered gas. It is for this reason that it is so important that SCE&G be required as a condition of the merger to contract for the least cost provider of natural gas transportation service.

Q. DOES TRANSCO HAVE SPECIFIC RECOMMENDATIONS FOR COMMISSION ACTION HEREIN?

A. Yes. Transco believes that due to the potential adverse impact that the proposed merger may have on SCE&G's and SCANA's ratepayers, certain safeguards must be included to ensure that the ratepayers continue to receive the best services at the lowest rates. Transco requests that if the Commission approves the Dominion-SCANA merger, any order of approval include conditions: (a) requiring SCE&G to issue a request for proposals for any additional natural gas transmission capacity and engage in good faith negotiations with third party suppliers of natural gas transportation capacity, and affirming the Commission's intention to carefully scrutinize any affiliated agreements; (b) requiring SCE&G to file confidential reports on any such negotiations with the Commission within 30 days after the conclusion of such discussion; (c) requiring that SCE&G follow a "least cost" standard with regard to contracting for gas supplies and transportation and storage services to ensure there is fair competition among competing service providers and that these business decisions are not biased in favor of affiliated transactions, or at a minimum, require SCE&G to establish that the contract is in the public interest if it does not accept the "least cost" alternative and an affiliated pipeline/supplier is awarded the contract; and (d) requiring that Dominion obtain prior approval from the Commission for any proposed gas transmission project that would serve gas-fired electric power generation plants or LDC loads owned or operated by SCANA or an affiliate. A formal statement of these proposed conditions in provided in

Exhibit "HA 2", to my testimony.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.